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FORTUNE

WHAT WELCH HAS WROUGHT AT GE
PLUS:
THE AIR TRAVEL MESS

BACK FROM THE BRINK WITH TED TURNER

But even after his flashy MGM deal, he faces more perils than Pauline

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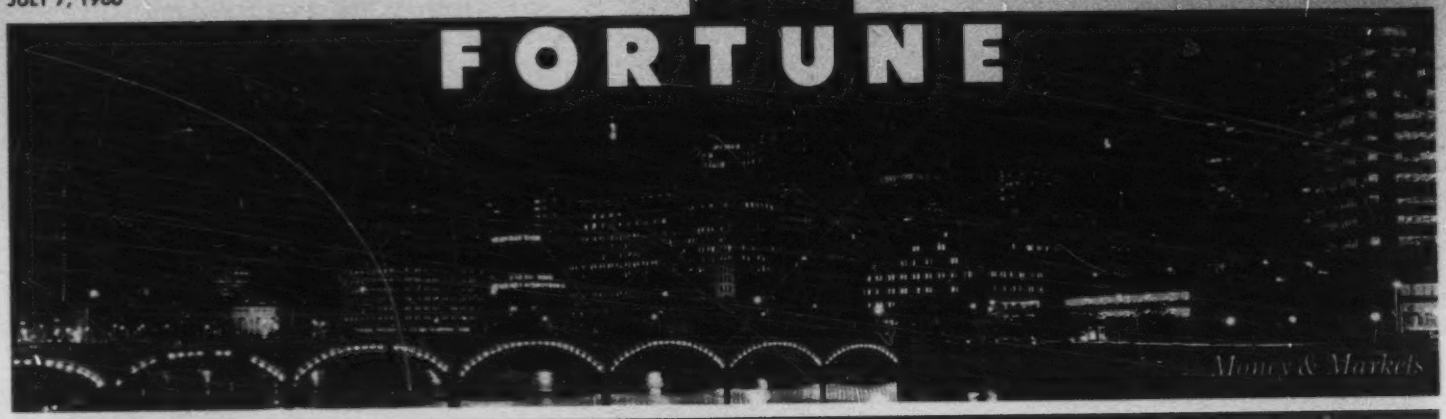

For the cover, Antonin Kratochvil photographed one of America's most daring entrepreneurs. *See page 24.*

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example. These are hardly the bastions of opportunity for office computers.

ROBERT A. YELLOWLEES
President, AMTEL Consulting Group
American Telesystems Corp.
Atlanta

When I mentioned the conclusions reached in your article to my secretary, her response was, "That's absurd." I must agree.

Senior personnel at almost every business and professional organization with which I have contact concluded not only that computerization has increased their staffs' productivity enormously, but that their organizations could not function without widespread access to computers. Relying on anecdotal evidence, I can state that many "products" turned out by law firms cost less, are better, and are completed in a fraction of the time, compared with even five years ago.

PAUL A. PENSIG
Partner, Pensig & Uhl
Beverly Hills, California

To judge the impact of office computers on the entire economy, I suggest you look to the U.S. share of world markets for white-collar (science- and technology-based) products and America's relative standard of living. You do the nation a disservice by encouraging management doubt about the payoff of office automation when evidence of significant strategic returns is at hand.

N. DEAN MEYER
Ridgefield, Connecticut

You conclude that computers' payoff is puny because "productivity has grown more slowly in the computer age than it did before computers came into wide use." Using the same reasoning, I'd like to point out that the PC revolution has reduced the cost of oil, spurred the popularity of videocassette recorders, and led to the Mohawk hairstyle.

MARK J. CHUSSIL
Director, Business-Unit Strategy Program
The Strategic Planning Institute
Cambridge, Massachusetts

Executive Ghostwriters (cont'd)

I had just finished talking with the head of a FORTUNE 500 company, who called to thank us for a speech our firm had drafted for him, when I read David Finn's article advising top executives to write their own speeches ("Exorcise the Executive Ghostwriters," Other Voices, May 26).

Would it really serve the corporation or the stockholders for this executive to spend many hours—instead of the 2½ hours he spent, mostly with our interviewer—on that project? After all, it is not his performance as a speechmaker that justifies his large salary.

Most top executives deal orally with decisions and issues. They review written reports and approve or revise them. Why do they have to change the rules for preparing speeches?

MARION BUHAGIAR
Partner, Expert Connections
New York City

What Did the Boss's Mother Do?

It is no surprise to see only two women C.E.O.s in the FORTUNE 500 in 1986 ("Atop the FORTUNE 500: A Survey of the C.E.O.s," April 28). But it *is* a surprise in 1986 that FORTUNE, while including "what their fathers did" in the survey data, did not also include "what their mothers did."

Perhaps in a future survey there will be more women C.E.O.s; "what their mothers and fathers did" will be important survey data; and mothers as well as fathers will be viewed as important role models, whether they are full-time mothers, working women, or career women.

FRAN SHELLENBERGER
Lanham, Maryland

A Novel Approach to Terrorism

Re "Coping With the Fear of Terror" (May 26): The fear of hijacking has scared many people away from traveling to Europe, with Pan Am and TWA losing a lot of business. To deal with this problem, I propose that each overseas airline passenger be provided with a .22-caliber automatic pistol and two extra clips of shells. Thus, when the hijackers attempt to take over the plane, there will be a shootout. The hijackers will be shot, and there will be a few casualties among the passengers. The bullets could be of a brittle material that would shatter before penetrating the cabin wall.

Certainly there is an element of risk in providing pistols, and it may be there would be some accidents or misuse of the weapons. On the other hand, there is much more risk for the passengers not to be armed in a bad sitution hundreds of miles from land and police protection.

ROBERT A. HEGEMAN
Trumbull, Connecticut

Correction

The FORTUNE *Service 500 (June 9) should have listed Pacific Mutual Life Insurance Co.'s increase in life insurance in force as $3,925,176,000 (rank: No. 20).*

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THE WORSENING AIR TRAVEL MESS

With the number of passengers and flights steadily growing, the system is bumping up against its physical limits. The result: more hassles, deteriorating service, and an ominous increase in near misses. If bad weather hits this summer, watch out. ■ *by Jeremy Main*

Oh, how was your trip?

Are you kidding? When I got to the terminal, the line for tickets stretched all the way out to the sidewalk. Every seat was taken, and a lot of people got left behind. The guy next to me was in his undershirt and barefoot. The air conditioning didn't seem to be working, the air was foul, and I felt dopey the whole trip. The john was a mess. The seats were worn and scruffy. And the traffic made us two hours late.

Why in the world did you go by bus?

What bus? I flew.

THAT'S AIR TRAVEL, 1986. Flying, once a rather glamorous experience, is today's mass transportation. This summer promises to be particularly uncomfortable for the air traveler in the U.S., especially the businessman, who must often fly to the busiest airports at the worst times. It will also pose big challenges to people who run the airlines. With luck, the next few months won't be as trying as the summer of 1984, when a shortage of air traffic controllers combined with horrendous weather to cause record delays. Since then, though, passenger volume has grown by 5.5% a year, and fear of flying abroad this year seems likely to increase the load of passengers on domestic flights. Bad weather, which still can slow up air traffic more than any other problem, could make a lot of people wish they had, well, taken the bus.

The deregulation of U.S. airlines that began in 1978 has brought air travel within the means of millions, and that, of course, is laudable. Flying remains a safe way to travel. But as air traffic volume repeatedly breaks records—the one-day high of 111,152 flights under U.S. air traffic control was set on June 5, and it probably won't last long—the air transport system keeps bumping up against its physical limits. That means even more crowded terminals, jam-ups in the parking lots and access roads, harassed ticket agents, and, worst of all, flight delays.

John R. Huggins, president of Woodside Management Systems Inc., the largest U.S. corporate travel agent, echoes a common warning: "We can expect delays and inconvenience, which will be at a maximum in the peak summer months. The efficiency of the business traveler will be significantly decreased." Daniel T. Smith, manager of consumer and industry affairs for the Airline Passengers Association, anticipates considerable "inconvenience and delay," and he doesn't see much relief in the foreseeable future. "It's a matter of physics. The system can accommodate only so many planes."

While passengers tend to remember the horror stories about air travel—the fistfight in Honolulu on a Sunday afternoon because the airlines had overbooked flights back to the mainland—the statistics suggest less dramatic deterioration, but deterioration nonetheless. Judging from data collected by the government, the quality of service is declining (see left chart, page 54). Complaints by passengers to the Department of Transportation, flight delays, and the bumping of passengers from overbooked flights all have increased in the past year and a half.

Unprecedented fines levied by the Federal Aviation Administration on American Airlines, Continental, and Eastern Air Lines for maintenance violations also signal declining standards. The FAA charged Eastern with infractions such as extending the interval between overhauls of its Boeing 727s without government approval. American was fined for failing to fix a leaky toilet. The problem was not merely hygienic: Water escaping to the outside of the plane formed a chunk of ice that knocked off an engine in midflight. Fatal accidents on scheduled flights remain rare, but the number of near misses on the runways and in the air have increased ominously, suggesting that overworked and perhaps inexperienced controllers may be having trouble keeping planes sorted out.

Considering the chaotic state of the industry, it is not surprising airlines are having trouble maintaining standards. Robert L. Crandall, chairman of American, has noted that since deregulation, 72 new airlines have started, and 33 have disappeared. In the first quarter alone, the industry lost $500 million.

The major reason for the deterioration of service, though, is the overburdened system of airports and airways. The number of passengers in the U.S. has risen from 292 million on 14.7 million commercial flights in 1980 to a predicted 392 million on 19.2 million flights this year. The FAA foresees over 650 million passengers and 26.4 million flights in 1997. This growth will have to fit in a system already strained at peak hours.

If only travelers would distribute their movements evenly around the clock and around the country, the system would have plenty of capacity. Trouble is, people have the awkward habit of all going to the same places at the same times. Fly to New York, St. Louis, or Denver at the start or end of a business day, and you can count on a delay. The FAA tots up a delay when a plane is more than 14 minutes late. On average, about 34 flights out of every 1,000 have been delayed in recent months. So far this year, 85% of those delays came about because of traffic at eight airports: Atlanta, Boston, Chicago, Denver, La Guardia, Newark, St. Louis, and San Francisco. Newark, struggling with an increase of daily People Express flights from zero to 440 in six years, accounted for 18% of all delays in the first five months of 1986. Delays at those

RESEARCH ASSOCIATE *Lynn Fleary*

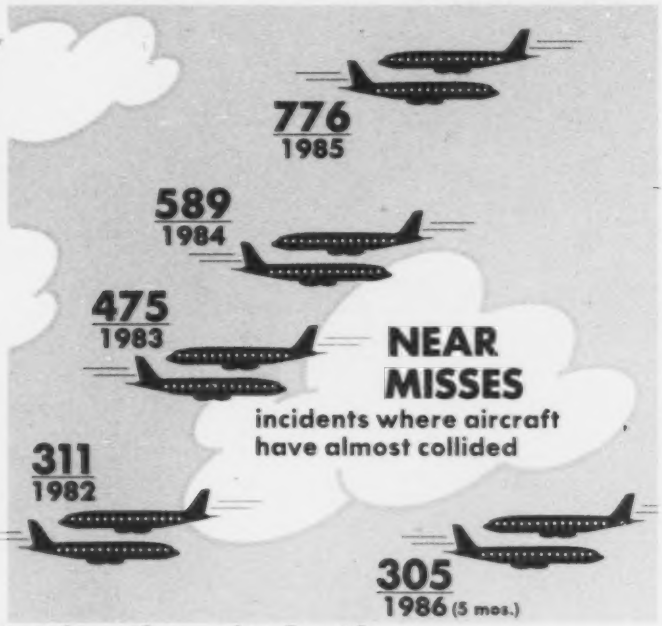
10 WORST AIRPORTS
(delays per 1,000 flights)

AIRLINE	1984	1985	1986*
Newark	106	90	101
La Guardia	145	94	87
St. Louis	54	31	63
Boston	51	42	60
San Francisco	44	46	53
Kennedy	123	48	50
Denver	71	66	46
Chicago	57	58	38
Atlanta	53	39	39
Minneapolis	15	12	31

*Through May 31, 1986. Source: FAA

Going Round and Round

As traffic increases, delays mount at major airports. Even before the summer crush this year, some airports reported more delays than in 1984, a particularly bad year. At peak hours, of course, the totals exceed those cited above. Any flight over 14 minutes late is counted as delayed.



Getting Closer in the Sky

Near misses have increased steadily for five years. Five months into 1986, more incidents had been reported than in the same period of 1985. The FAA records a near miss when two aircraft pass within less than 1,000 feet of each other vertically or less than five miles horizontally.

eight cities are far more than 34 in 1,000.

Since deregulation the entire system has been made more susceptible to delay by the emphasis the airlines have put on so-called hub-and-spoke operations. Squadrons of planes converge on a single airport at a peak period to swap passengers and transfer them to the outbound spokes of the system. That makes business sense because the hubs capture customers from the farthest reaches of the system. But when a hub is hit by bad weather—for example, summer turns the Mississippi valley into thunderstorm alley and socks in the St. Louis airport—the whole wheel comes apart.

Airline executives argue that delays could be cut radically if the FAA and the Department of Transportation would hire more controllers. The FAA now has some 14,000 of them, 2,000 fewer than before the 1981 strike. A $12-billion federal plan to modernize airports and air traffic control is far behind schedule. The reason: the Reagan Administration will not spend the money accumulating by the billions in a government trust fund financed by airport taxes levied on passengers and freight. Some $4 billion is uncommitted in the trust fund, helping the Office of Management and Budget make the federal deficit appear smaller, but not helping the airlines or their passengers at all.

The Air Transport Association, which represents the major carriers, would like air traffic control put under a semiprivate corporation that would respond more to airlines' needs. The corporation would collect the airport taxes that now get swallowed up in the trust fund and use the money to operate and improve air traffic control. The FAA would retain airline inspection and certification functions. Then, says Thomas G. Plaskett, an American Airlines senior vice president, today's capacity problems would be solved.

GOVERNMENT OFFICIALS, predictably, do not agree. James R. Smith, who worries about airport capacity for the Department of Transportation, points to some steps that are already being taken to increase the capacity of the system. New microwave landing aids, more intensive use of parallel and intersecting runways to speed the flow of traffic, and other improvements will help a bit. Miami is widening taxiways, Phoenix is building a new terminal, and Dallas-Fort Worth is adding a runway. But these improvements will add only marginally to capacity. Says Smith, "You can do just so much with existing facilities, and then you have to find more landing places. The ultimate solution is more airports."

No major new airports have been built since Dallas-Fort Worth opened in 1974, and with one exception, none is likely to be built for a long time. More airports did not seem necessary until traffic exploded after deregulation; now it's hard to find a community that will not fight plans to create an airport nearby. Only Denver has approved a new airfield.

The airlines will be bumping up against capacity limits for years to come. Access to key airports during peak hours remains among the more valuable assets an airline can own. Pan Am recently paid Texas Air $65 million to acquire three gates at Boston and La Guardia and 64 landing slots at La Guardia and National Airport in Washington to serve Pan Am's new shuttle service.

The ability to reduce and cope with delays and other problems varies dramatically from one carrier to another. Department of Transportation figures show, for example, that American Airlines, one of two major carriers to make a profit in the first quarter, drew only about one-fifth as many complaints per 100,000 passengers as People Express, the archetypal no-frill discounter. In the three months ending in March, passengers complained about People twice as often as they did about any other major airline.

continued

A PIONEERING AIRLINE C.E.O. LOOKS AHEAD

■ *Originally a bitter opponent of airline deregulation, Francisco A. Lorenzo ("Please call me Frank") is now its leading exponent. Through Texas Air Corp., the holding company of which he is chairman and chief executive, Lorenzo, 46, reigns over Continental Airlines, New York Air, and Jet Capital Corp., a financial holding company. Texas Air's acquisition of Eastern, which may be completed by August, could make Lorenzo's airline system the largest in the U.S. He built it by piling up debt, defying unions, and skillfully steering that airline through Chapter 11 reorganization. "People still think of me as a financial guy," he says. "I have very little to do with that. I'm the guy who determines the marketing equation and figures out how to make a company work." In an interview with* FORTUNE *writer Roy Rowan, Lorenzo explained what he thinks airlines have to do to improve service and how the Eastern acquisition fits into his vision of the industry's future.*

ARTHUR MEYERSON

Frank Lorenzo, *Texas Air's chief executive*

On why airlines are receiving so many complaints: Before deregulation this was an industry that was responsive to the government, not the consumer. The changeover still needs to be worked through so more attention is paid to the passenger, particularly in ticketing and assuring a hassle-free trip. Ironically, Continental and the other low-fare airlines tend to generate more than their share of complaints. Most complaints involve misunderstandings about reduced fares. Also, when your plane is completely full it's going to put pressure on your service.

On the hazards of the fare wars: The big, high-priced airlines are known for bait and switch. When customers call up and can't get the advertised but highly restricted fare, they often decide to buy a ticket at the much higher regular rate. You'll never catch American or United advertising its regular fare. This deception puts carriers like Continental and People Express that have genuine low fares at a disadvantage. We're trying to sell our customers on straightforwardness and simplicity. We say, "Call us, and the price you see advertised is the price you get." But it's very hard for us to keep to those virtuous beliefs—we lose a lot of passengers.

On overbooking problems: We, like everybody else in the industry, make our money at 5 P.M. and have to fill our seats at such peak hours. Even then, no-show rates run in the 20% range. So as an industry we have to overbook. Under the economics of deregulation we can pass on the financial gain from flying full airplanes to the passenger in the form of a lower fare. Nevertheless, we're starting to put a charge on a change in reservations—a 25% cancellation fee on restricted fares. I think it's only a matter of time before we adopt the theater ticket concept—if you don't go, you lose your money.

On Eastern's marketing strengths: People like to fly with an airline that goes to a lot of places and sells all kinds of tours through packagers and travel agents. When you operate 60% of the flights out of a city like Miami, as Eastern does, and are the biggest buyer of discounted hotel space for package tours, you're going to get most of the business. Another of Eastern's marketing advantages is its computerized reservations system. One of Continental's disadvantages is not having a reservations system that connects with the travel agents' computers. This is crucial since 70% of all bookings come through travel agents. After the merger Continental will be plugged into Eastern's reservations system.

On Texas Air's financial strength: Texas Air has a strong balance sheet—our debt is long term and the interest on it manageable. New York Air and Continental have both grown tremendously. Continental earned $61 million in 1985, $11 million more than in 1984. It may seem remarkable, but this airline has 74% more capacity than it did prebankruptcy. It should be out of Chapter 11 within 60 days. The plan has already been approved by all but two out of several hundred creditors.

On the possibility of more union resistance to changes management might make at Eastern: At Continental we have a record of attacking core problems. The union leaders know that. They're going to have to be realistic about the changes that are necessary. Strikers returned to Continental with a changed attitude. They now realize what they were getting from the unions was pure gibberish. Recently, however, the unions have been hearing the call for low costs even from the most robust companies. I think the message is beginning to sink in.

On what the merger means to air travelers: Whether we cut Eastern's fares will depend on what makes sense. That, of course, would put further pressure on costs. Other airlines cut costs by cutting services. They take the cherries off the desserts and ticket agents off the counters. Customers notice these things. But the companies have to make these savings because they're still paying their senior pilots $125,000 for flying 50 hours a month. Our basic philosophy will be to provide consumers with what they demand of an air transportation product—full-service flights at low fares.

On whether deregulation has gone too far: You either have freedom of the marketplace or you don't. Ten years ago we had an industry where you never could make much money. Now the upside opportunities are vastly improved. But deregulation also provided an opportunity for airlines to fail.

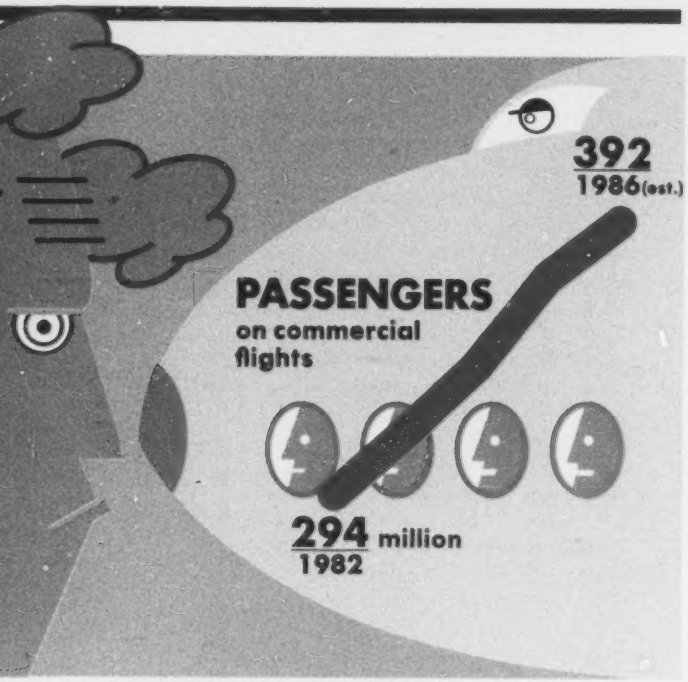
On the formation of what Lorenzo calls megalines: In the postderegulation era, first there was the new airline phase. Then came the consolidation and cost-cutting phase. Now we're heading into the megaline phase, which will leave the U.S. with from five to eight major carriers, instead of a dozen or so today.

COMPLAINTS
to FAA per 100,000 passengers

AIRLINE	1982	1983	1984	1985	1986*
People	6.91	4.82	3.11	4.59	10.38
Pan American	4.54	3.70	3.90	5.06	4.86
Continental	2.29	5.25	4.42	4.34	4.22
TWA	5.16	3.34	3.74	3.39	3.88
Eastern	2.35	1.32	1.12	1.61	3.03
Republic	2.02	1.34	0.71	1.39	2.48
United	2.13	1.46	1.72	2.45	2.06
American	2.35	1.32	1.12	1.36	1.93
USAir	1.97	1.24	1.22	1.52	1.86
Northwest	2.41	2.29	1.69	1.68	1.50
Piedmont	1.27	0.72	0.66	0.71	1.23
Delta	0.79	0.70	0.65	0.67	0.60

*Through March 31, 1986

Source: Department of Transportation



Passengers Are Getting Madder

There's a swelling number of written and phone complaints from passengers to the Department of Transportation about airline service. The department figures that for every complaint it receives, the airlines get ten. Most of the gripes concern delays, lost baggage, and fares. Of course, many aggrieved people never write or call.

But More Are Flying

The hassles of air travel haven't stopped the growth of air traffic. In the last decade, the number of passengers flying every year has climbed by about 100 million. The FAA expects an increase of another 250 million in the next ten years.

Yet People Express's phenomenal success in attracting passengers spawned so many imitators that today 88% of passengers travel on discount tickets. Other airlines have managed to bring down prices by cutting their own costs and going to two-tier pay systems. United, for instance, pays its bottom-tier starting pilots $1,527 a month, compared with People's starting rate of $1,833. TWA pays new stewardesses $12,000 a year compared with People's $17,000 for new "customer service managers." All of which suggests that price competition will continue, drawing even bigger crowds to the already crowded skies.

EVERY AIRLINE overbooks to make up for the inevitable no-shows, who suffer no penalty other than the possible loss of a cheap fare requiring advanced booking. The trick for the airline is to gauge the no-shows to a fine point, and that has become harder because bookings have increased. The result for some carriers has been an increase in bumpings: Passengers with reservations find that there is no place for them aboard their scheduled flight. People's relatively unsophisticated reservations system led to hundreds of bumpings last winter. In December the rate averaged 36 passengers bumped per 10,000, far above the industry average. American, by comparison, bumped only one in 40,000 passengers involuntarily in December, partly because it pays generously in cash or tickets for volunteers to give up their seats on overbooked planes.

Passengers complain that fares are too complicated to understand, vary too much, and sometimes change, if not quite in midflight, at least after reservations have been made. Pan Am recently offered a one-way flight on a 747 between New York and Los Angeles for as little as $99, while American's advance-purchase special-coach round-trip ticket on a DC-10 cost $248 and its regular round-trip ticket $980. All three prices bought basically the same transportation.

A New York businessman says that he made a reservation to fly to Oakland last fall on People for $119. When his girlfriend later made a reservation on the same flight, the price had gone up to $149. Once they were airborne—which is when People collects the fares—they were told the price was $199. He refused to pay more than $149 and, he says, persuaded 22 passengers to sign a petition stating they had to pay more than the price quoted when they made their reservations. The Oakland police were waiting for him at the airport, but he was released after some questioning and arguing. People's managing officer for marketing, Stephen Schlachter, replies that the company never raises rates once the flights are put on sale. For instance, People is now accepting reservations through September 14 and promises not to raise any rates on flights up to that date. But he agrees that misunderstandings have occurred.

Airline service also shows the strain of price wars and tight budgets in small ways. When foul-ups leave passengers stranded overnight, most lines are less likely than before deregulation to pay for meals and hotels—unless the plane is diverted to an unexpected destination. In-flight feeding, which for years has been among the more degrading experiences of modern life, is not improving. In a survey of what the airlines spent feeding their captive diners in the third quarter of 1985, *Air Transport World* found a range from USAir's low of $2 per meal to a high of $6.06 at Northwest and Pan Am. Not much room for filet mignon on those budgets. For a while after TWA flight attendants went on strike against the carrier's new owner, Carl Icahn, and his new work rules, TWA stopped serving hot meals entirely. The 2,800 new stewardesses hired and trained in a hurry did not have time to learn how to handle the ovens. Eventually they got further training in-flight, and TWA

resumed serving hot meals on May 26.

According to some not unbiased observers, even the quality of air in the cabins may be suffering. Matthew Finucane, director of flight safety for the Association of Flight Attendants, claims that some airlines, which he will not identify publicly, try to save fuel by decreasing air circulation in flight, resulting in too little oxygen and too much pollution in the air. "Attendants sometimes work in a blue haze and show signs of disorientation and numbness," he says. The airlines emphatically deny that cockpit crews ever reduce air circulation to save fuel.

SAYS KELLY NELSON, a senior vice president of Ask Mr. Foster Travel Service: "The airlines are cutting corners. I notice a deterioration in things like the maintenance of carpets and seats. But I strongly believe that the safety standards are kept up to the old levels."

Travelers' prospects are not completely cheerless. Low fares without frills have become too commonplace to be sure-fire competitive winners, so travelers are beginning to see some return to amenities. Pan Am says its new Boston-New York-Washington shuttles will offer full service, which presumably will mean a chance to gulp a drink and bolt a snack during the brief flight. After a three-month experiment with no frills, Frontier, owned by People, went back to full service recently. People Express itself appears to want to move up the social ladder; the line already offers first-class service on international and transcontinental flights and will add it on all other flights this summer.

Most lines have cut their operating costs to where they can compete with the discounters. Fuel prices have fallen sharply. A study by Salomon Brothers, the investment banking firm, finds "the airline industry's financial health has improved dramatically." The author, Julius Maldutis, says he was amazed how rapidly the airlines recovered between 1983 and 1985 from the profit decline that came after deregulation. The industry could be highly profitable this summer, he says.

Pan Am and People Express still need strong turnarounds to put them in good health, as do Texas Air's Continental and Eastern, which Texas Air is acquiring. But Republic and USAir have already bounded back. American, Delta, Northwest, Piedmont, and United remain financially strong.

Don't get your hopes up, though. Renewed financial strength will not lift air travel back to its glory days before it became mass transit. The beleaguered traveler may encounter an unexpected touch of class here and there, but price cutting, cost cutting, and passenger volume will continue to rule the industry. ◘

PAINKILLERS

■ The business traveler has less choice about when and where to fly, and thus may suffer more hassles than the vacation traveler. But there are ways of reducing the irritation:

▶ Avoid, if possible, flying at the busiest times, the early mornings and late afternoons of weekdays. For reasons travel experts haven't fathomed, Thursday has become the most crowded day of the week.

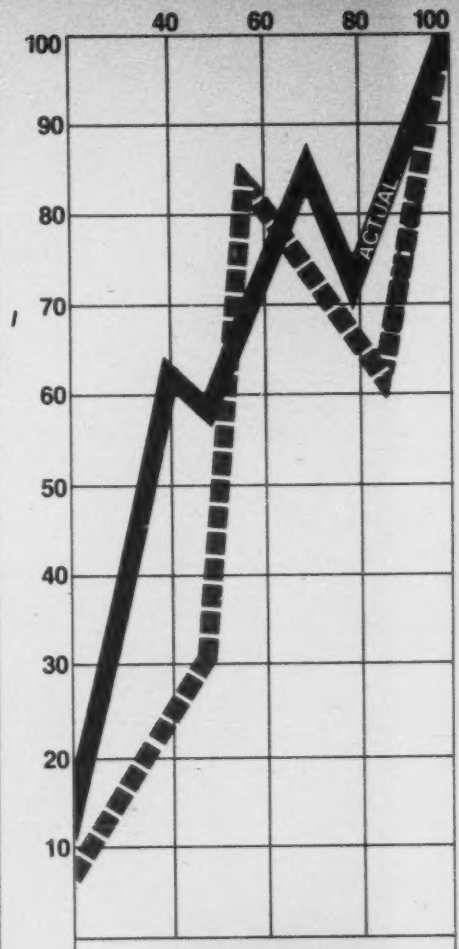
▶ Arrange a routing that will skip the busiest airports (see left chart, page 52). Take direct flights when possible and if you must change planes, try to avoid delay-prone hubs such as Newark, Atlanta, and Chicago.

▶ Call before going to the airport to see if flights are delayed. Because of crowds, security checks, and the threat of being bumped, check in for a flight an hour or so early. If you can get a seat assignment and boarding pass in advance, so much the better.

▶ Look for a lower fare, even when your employer is paying. Traveltron (714-851-8073) will give free information by phone on the cheapest available fares. The Ask Mr. Foster agency keeps a computerized data base on bargain fares, updated daily, for its customers.

▶ Learn the rules about what airlines are obliged to do when flights are delayed or you are bumped. For instance, if a flight is delayed more than an hour and another airline can get you to your destination sooner, most carriers will put you on the other flight and absorb any extra cost—but they are not likely to offer the alternative unless you ask. Assuming you have checked in on time, an airline can't bump you until it has first asked for volunteers. These and other rules are explained in a booklet available for $2 from one of the Ralph Nader organizations (*Facts and Advice for Airline Passengers*, Aviation Consumer Action Project, P.O. Box 19029, Washington, D.C. 20036).

▶ Carry all your luggage with you on board, as savvy air travelers have done at least since the invention of the hanging garment bag. If you must check a suitcase, don't put in it anything you might need within 24 hours, or the only copy of your millionaire uncle's will.



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